



6450-01-P

## **DEPARTMENT OF ENERGY**

### **Western Area Power Administration**

#### **Boulder Canyon Project**

**AGENCY:** Western Area Power Administration, DOE.

**ACTION:** Notice of Base Charge and Rates.

**SUMMARY:** In this notice, the Deputy Secretary of Energy (Deputy Secretary) approves the Fiscal Year (FY) 2013 Base Charge and Rates for Boulder Canyon Project (BCP) electric service provided by the Western Area Power Administration (Western). The Base Charge will provide sufficient revenue to pay all annual costs, including interest expense, and repay investments within the allowable period.

**DATES:** The revised Base Charge and Rates will be effective the first day of the first full billing period beginning on or after October 1, 2012, and will stay in effect through September 30, 2013, or until superseded.

**FOR FURTHER INFORMATION CONTACT:** Mr. Jack Murray, Rates Manager, Desert Southwest Customer Service Region, Western Area Power Administration, P.O. Box 6457, Phoenix, AZ 85005-6457, (602) 605-2442, e-mail [jmurray@wapa.gov](mailto:jmurray@wapa.gov).

**SUPPLEMENTARY INFORMATION:** Hoover Dam, authorized by the Boulder Canyon Project Act (45 Stat. 1057, December 21, 1928), sits on the Colorado River along the Arizona and Nevada border. Hoover Dam power plant has nineteen (19) generating units (two for plant use) and an installed capacity of 2,078,800 kilowatts (kW) (4,800 kW for plant use). High-voltage transmission lines and substations connect BCP power to consumers in southern Nevada, Arizona, and southern California. BCP electric service rates are adjusted annually using an

existing rate formula established on April 19, 1996. The rate formula requires the BCP Contractors to pay a Base Charge (expressed in dollars), rather than a rate, for their power. The Base Charge is calculated to generate sufficient revenue to cover all annual costs and to repay investment obligations within allowable time periods. The Base Charge is allocated to each BCP Contractor in proportion to their allocation of Hoover power. A BCP composite power rate, expressed in mills per kilowatt-hour (mills/kWh), can be inferred by dividing the Base Charge by energy sales in the year; however, the rate is not used to determine customers' bills.

Rate Schedule BCP-F8, Rate Order No. WAPA-150, effective October 1, 2010, through September 30, 2015, allows for an annual recalculation of the Base Charge and Rates.<sup>1</sup> This notice sets forth the recalculation for FY 2013. Under Rate Schedule BCP-F8, the existing composite rate, effective on October 1, 2011, is 21.12 mills/kWh. The Base Charge is \$84,536,772, the energy rate was 10.56 mills/kWh, and the capacity rate is \$1.84 per kilowatt-month (kW-month).

The recalculated Base Charge for BCP electric service, effective October 1, 2012, is \$82,379,637, a 2.55-percent decrease from the FY 2012 Base Charge. The decrease is due to a decrease in the annual revenue requirement, driven primarily by decreases in FY 2011 annual operation and maintenance expenses and replacement costs, and increases in the other non-power revenues. The decrease in FY 2011 expenses resulted in additional carryover in FY 2012 and FY 2013, which reduced the FY 2013 Base Charge. The FY 2013 composite rate of 21.28 mills/kWh is an increase of approximately 1 percent compared to the FY 2012 BCP composite rate. The FY 2013 energy rate of 10.64 mills/kWh reflects an increase of approximately 1 percent compared to the existing energy rate of 10.56 mills/kWh. Energy sales are decreasing

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<sup>1</sup> FERC confirmed and approved Rate Order No. WAPA-150 on December 9, 2010, in Docket No. EF10-7-000, *See United States Department of Energy, Western Area Power Administration, Boulder Canyon Project*, 133 FERC ¶ 62,229 (December 9, 2010).

compared with FY 2012 due to deteriorating hydrological conditions in FY 2013. The FY 2013 capacity rate of \$1.96/kW-month reflects an increase of approximately 7 percent compared to the existing capacity rate of \$1.84/kW-month. Capacity sales are decreasing compared with FY 2012, due to a forecast of poor hydrology in FY 2013 compared to FY 2012. Although the revenue requirement for FY 2013 is decreasing, the decrease in energy sales results in an increase to the composite and energy rates, and the decrease in capacity sales results in an increase to the capacity rate. The proposed rates were calculated using Western's FY 2012 Final Master Schedule which provides the FY 2013 projections for energy and capacity sales.

The following summarizes the steps taken by Western to ensure involvement of all interested parties in determining the Base Charge and Rates:

1. A Federal Register notice was published on January 18, 2012 (77 FR 2533), announcing the proposed rate adjustment process, initiating a public consultation and comment period, announcing public information and public comment forums, and presenting procedures for public participation.
2. Discussion of the proposal was initiated at an informal BCP Contractor meeting held March 7, 2012, in Phoenix, Arizona. At this informal meeting, representatives from Western and the Bureau of Reclamation (Reclamation) explained the basis for estimates used to calculate the Base Charge and Rates and held a question and answer session.
3. At the public information forum held on March 28, 2012, in Phoenix, Arizona, Western and Reclamation representatives explained the proposed Base Charge and Rates for FY 2013 in greater detail and held a question and answer session.
4. A public comment forum held on April 11, 2012, in Phoenix, Arizona, provided the public an opportunity to comment for the record. One individual commented at this forum.

5. Western received three comment letters during the 90-day consultation and comment period.

The consultation and comment period ended April 17, 2012. Western responds to comments received in this Federal Register notice. The written comments were received from the following interested parties representing various customers of the BCP Contractors:

- Arizona Westside Irrigation & Electrical Districts, Phoenix, Arizona.
- Irrigation & Electrical Districts Association of Arizona, Phoenix, Arizona.
- Ryley Carlock & Applewhite Attorneys, Phoenix, Arizona

Comments and responses, paraphrased for brevity when not affecting the meaning of the statements, are presented below.

### **Rate Impacting Issues**

Comment: Commenters expressed their belief that Hoover rates should be insulated from initiatives they consider of questionable economic merit for Western customers, such as an Energy Imbalance Market (EIM). The commenters emphasized that they strongly oppose any expenditures collected through the FY 2013 rates for the study, design, implementation or operation of, or Western's participation in, an EIM.

Response: Western is evaluating whether to participate in an EIM based on the possible range of costs, benefits, risks, and market alternatives, but has not included any direct costs in the proposed BCP FY 2013 Base Charge and Rates that relate to design and implementation or operation of, or Western's participation in, an EIM. Costs that may be incurred in the future will be addressed during base charge and rates calculations at that time.

### **Future Rates**

Comment: Commenters expressed a concern that extraneous costs may result from Secretary Chu's March 16, 2012, memorandum concerning new roles for Power Marketing Administrations and creep into future Hoover power rates.

Response: No specific action has been taken as a result of the memorandum from Secretary Chu and no direct costs, as mentioned in the above response, are included in the FY 2013 Base Charge and Rates.

### **BCP Electric Service Rates**

BCP Base Charge and the resulting calculated Rates for electric service are designed to recover an annual revenue requirement that includes operation and maintenance expenses, payments to states, visitor services, the uprating program, replacements, investment repayment, and interest expense. Western's power repayment study (PRS) allocates the projected annual revenue requirement for electric service equally between capacity and energy.

### **Availability of Information**

Information about this Base Charge and Rate adjustment, including PRS, comments, letters, memorandums, and other supporting material developed or maintained by Western used to develop the FY 2013 BCP Base Charge and Rates is available for public review at the Desert Southwest Customer Service Regional Office, Western Area Power Administration, 615 South 43<sup>rd</sup> Avenue, Phoenix, AZ 85005. The information is also available on Western's website at [www.wapa.gov/dsw/pwrmt/BCP/RateAdjust.htm](http://www.wapa.gov/dsw/pwrmt/BCP/RateAdjust.htm).

### **Ratemaking Procedure Requirements**

BCP electric service rates are developed under the Department of Energy Organization Act (42 U.S.C. 7101-7352), through which the power marketing functions of the Secretary of the Interior and Reclamation under the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent enactments, particularly section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)), and other acts that specifically apply to

the project involved, were transferred to and vested in the Secretary of Energy, acting by and through Western.

By Delegation Order No. 00-037.00, effective December 6, 2001, the Secretary of Energy delegated: (1) the authority to develop long-term power and transmission rates on a non-exclusive basis to Western's Administrator; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand or to disapprove such rates to the Federal Energy Regulatory Commission (FERC). Existing Department of Energy procedures for public participation in electric service rate adjustments are located at 10 CFR part 903, effective September 18, 1985 (50 FR 37835), and 18 CFR part 300. Department of Energy procedures were followed by Western in developing the rate formula approved by FERC on December 9, 2010, at 133 FERC ¶ 62,229.<sup>2</sup>

The Boulder Canyon Project Implementation Agreement requires that Western determine the annual base charge and rates for the next fiscal year before October 1 of each rate year. The rates for the first rate year, and each fifth rate year thereafter, become effective provisionally upon approval by the Deputy Secretary and subject to final approval by FERC. For all other rate years, the rates become effective on a final basis upon approval by the Deputy Secretary.

Because FY 2013 is an interim year, these rates become effective on a final basis upon approval by the Deputy Secretary.

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<sup>2</sup> The existing rate-setting formula was established in Rate Order No. WAPA-70 on April 19, 1996, in Docket No. EF96-5091-000, at 75 FERC ¶ 62,050, for the period beginning November 1, 1995, and ending September 30, 2000. Rate Order No. WAPA-94, extending the existing rate-setting formula beginning on October 1, 2000, and ending September 30, 2005, was approved on July 31, 2001, in Docket No. EF00-5092-000, at 96 FERC ¶ 61,171. Rate Order No. WAPA-120, extending the existing rate-setting formula for another five-year period beginning on October 1, 2005, and ending September 30, 2010, was approved on June 22, 2006, in Docket No. EF05-5091-000 at 115 FERC ¶ 61,362. WAPA-150, extending the existing rate-setting formula for another five-year period beginning on October 1, 2010, was approved on December 9, 2010, in Docket No. EF10-7-000 at 133 FERC ¶ 62,229.

Western will continue to provide annual rates to the BCP Contractors by October 1 of each year using the same rate-setting formula. The rates are reviewed annually and adjusted upward or downward to assure sufficient revenues are collected to achieve payment of all costs and financial obligations associated with the project. Each fiscal year, Western prepares a PRS for the BCP to update actual revenues and expenses including interest, estimates of future revenues, expenses, and capitalized costs.

The BCP rate-setting formula includes a base charge, an energy rate, and a capacity rate. The rate-setting formula was used to determine the BCP FY 2013 Base Charge and Rates.

Western proposed a FY 2013 Base Charge of \$82,379,637, an energy rate of 10.64mills/kWh, and a capacity rate of \$1.96/kW-month.

Consistent with procedures set forth in 10 CFR part 903 and 18 CFR part 300, Western held a consultation and comment period. The notice of the proposed FY 2013 Base Charge and Rates for electric service was published in the Federal Register on January 18, 2012 (77 FR 2533).

Under Delegation Order Nos. 00-037.00 and 00-001.00C, and in compliance with 10 CFR part 903 and 18 CFR part 300, I hereby approve the FY 2013 Base Charge and Rates for BCP Electric Service on a final basis under Rate Schedule BCP-F8 through September 30, 2013.

Issued in Washington, DC, on August 3, 2012.

Daniel B. Poneman  
Deputy Secretary of Energy

